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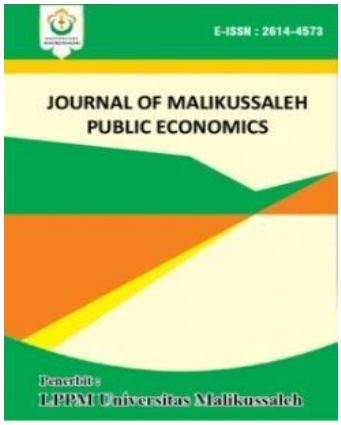
THE INFLUENCE OF LOCAL OWN-SOURCE REVENUE AND EQUALIZATION FUNDS ON ECONOMIC GROWTH IN THE PROVINCE OF SUMATERA UTARA



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A R T I C L E I N F O R M A T I O N

Keywords:

Local Revenue, General Allocation Fund, Special Allocation Fund, Economic Growth

A B S T R A C T

The study sought to ascertain the effects of the General Allocation Fund, Special Allocation Fund, and Local Revenue on North Sumatra Province's economic expansion. The review utilized Time Series information from 1990-2023. The review utilized the Autoregressive Circulated Slack (ARDL) strategy. Short-term research reveals that the variables Local Revenue and General Allocation Fund have a negative and insignificant effect on North Sumatra Province's economic growth, while the variable Special Allocation Fund has a positive and insignificant effect. In the long haul, Nearby Income significantly affects Financial Development in North Sumatra Area. The North Sumatra Province's economic growth is not significantly impacted by the General Allocation Fund. The North Sumatra Province's economic growth is boosted significantly by the Special Allocation Fund.

1. INTRODUCTION

In an effort to boost regional economic growth, the government implements a variety of decentralization policy strategies. Economic growth occurs when income rises independently of population growth rates. The rise in national income over a given time period, like the past year, is economic growth. Within a predetermined time frame, economic growth indicates an increase in both services and production capacity (Etika et al., 2022).

Economic growth can be used to explain or measure an economy's expansion. The fiscal expansion of a nation's production of goods and services, such as the expansion of manufacturing, the improvement of infrastructure, the number of schools, service sector production, and capital goods production, is referred to as economic growth in actual economic activities (Arina et al., 2019).

The degree of economic expansion is used to determine whether or not the economic policies implemented by the government are appropriate. The Gross Domestic Product (GDP) for the nation is frequently used as an indicator of economic growth, The capacity of the region to channel resources originating from the region in the form of Regional Original Revenue (PAD) is dependent on its capacity to convert existing economic potential into a form of economic activity that can generate revolving funds for regional development in the long term, whereas the Gross Regional Domestic Product (GRDP) is the regional indicator. In order to advance economically, each region requires funding not only from the state budget but also from regional income. Local governments must adapt and try to improve public services and various industries that become sources of local revenue after regional independence. The degree to which a community's economic well-being has changed is reflected in the region's high and low rates of economic expansion. Local revenue (PAD) will rise as a result of the expansion of public services in order to foster improved economic performance (Makawaehe, 2023)

Based on data obtained from the Central Statistics Agency (BPS), it can be concluded that Economic Growth in North Sumatra Province experienced positive growth almost every year during the 2014-2023 period. However, in 2020 economic growth decreased by 533.7 M due to the COVID-19 pandemic. The highest growth occurred in 2023, which amounted to 602.2 M. The increase in GRDP in the province was driven by the growth of the agricultural sector such as oil palm, rubber and other food crops. In addition, the increase in

GRDP was also driven by increased investment and growth in the tourism sector.

Local revenue in North Sumatra province has increased every year. Where in 2014 the local revenue of North Sumatra Province amounted to 3.5 trillion to reach in 2023 of 9.7 trillion. From this explanation, it can be seen that the local revenue of North Sumatra province tends to increase. The increase in PAD realization is supported by the amount of North Sumatra's local revenue in the local tax sector which makes a significant contribution to PAD. From the data on local revenue in 2014-2023 in North Sumatra province which tends to increase every year, it is followed by an increase in economic growth in North Sumatra province in 2014-2023.

The special allocation fund of North Sumatra province fluctuates every year. Where the DAK has increased from 2014 to 2019 amounting to 6.4 trillion rupiah but has decreased from 2020-2023 to reach 2.2 trillion rupiah. From the data on the special allocation fund of North Sumatra province from 2014-2023 which fluctuated, which will have an impact on North Sumatra province's economic growth between 2014 and 2023.

In light of this foundation, the creators are keen on looking at between nearby income, general designation assets and exceptional portion supports on monetary development so the foundation of the creator to take the title **"The Effect of Local Revenue and Balance Funds on Economic Growth in North Sumatra Province".**

2. THEORETICAL REVIEW

Economic Growth

While examining the results of a nation's or alternately district's financial turn of events, monetary development is one of the main pointers for surveying the economy's presentation. On the off chance that the development of labor and products ascends from the earlier year, the economy is supposed to develop. As a consequence of this, economic expansion exemplifies the extent to which community well-being and income can be enhanced over a predetermined period of time. The continued expansion of an economy in a country or region is a sign that the economy there is doing well (Chandra et al., 2017)

Regional Original Revenue (PAD)

Territorial Unique Income is income gathered from sources an inside a district's own area and gathered as per relevant regulations and guidelines in light of neighborhood guidelines. Territorial Unique Income (PAD) is provincial income created by neighborhood charges, isolated local administration, and different sources, as characterized by Regulation No. 33 of 2004. Legitimate regional income aims to provide regions with the flexibility they need to investigate funding options for implementing regional autonomy as a demonstration of the decentralization principle (Law No.33 of 2004: 213; Mokorowu et al., 2020)

General Allocation Fund (DAU)

In the context of decentralization, the DAU fund is allocated with the intention of equating interregional financial capacity to fund regional requirements. It is derived from APBN revenues. Since DAU is a block grant, the regions can decide how to use it based on their priorities and the need to improve community services in order to establish regional autonomy. The General Allocation Fund (DAU) aims to reduce financial disparity and equalize financial capacity among regions by employing formulas that take into account the potential and requirements of each. The balancing fund receives the most funding from DAU. In order to better serve the public and meet their financial needs, the central government provides general allocation funds to local governments. In addition to covering costs associated with regional operations, infrastructure development is another use for general allocation funds. The more general allocation funds that are received and the more general allocation funds that are utilized for the development of infrastructure will result in improved public services, which is anticipated to boost economic growth. (Kurniasari, 2019)

Special Allocation Fund (DAK)

DAK is a fund established by Law No. 33 of 2004 that comes from the portion of the national budget that is given to particular regions in accordance with national priorities. DAK is a grant that is paid for by the federal government and is given to specific regions to help them pay for specific necessities. Investment activities for the long-term development, acquisition, enhancement, and maintenance of infrastructure and physical facilities, including the acquisition of supporting physical facilities, are the primary focus of the utilization of DAK. (Sinaga et al., 2020)

3. RESEARCH METHODS

Data Analysis Method

Information investigation is a movement of handling information that has been gathered and afterward having the option to give an understanding of the outcomes. The examination strategy in this study utilizes ARDL (Austrogressive Circulated Slack). The ARDL model was selected because it can deal with research variables and data with varying stationary levels. If some variables are stationary at the level level while others are stationary at the first difference level, the ARDL (Autoregressive Distributed Lag) model is the best one for this study.

Autoregressive Distributed Lag (ARDL)

The information was concentrated by examining the connection between neighborhood income, general designation assets and extraordinary allotment finances on monetary development in North Sumatra region utilizing the Autoregressive Conveyed Slack (ARDL) examination model. The ARDL model is one of the dynamic models used in econometrics (Gujarati, 2012) because it describes the temporal flow of the dependent variable in relation to the previous value. Gujarati (2012) also made it clear that ARDL is in fact a combination of the Distributed Lag (DL) and Auto Regressive (AR) models. The DL model is a regression model that uses data from both past and present independent variables (lags), in contrast to the AR model, which uses one or more dependent variables.

Classical Assumption Test

The objective of classical assumption testing is to determine whether or not an estimation model based on a regression model is appropriate. If a model meets traditional assumptions or avoids issues of ordinariness, multicolierity, heteroscedacity, and autocorrelation, it is considered to be excellent if it is BLUE (Best Straight Impartial Estimtor). As a result, traditional assumptions were tested in this review, regardless of whether deviations occurred, indicating that this exploration model could be used.

Normality Test Results

The assumption of normality is accepted or rejected by comparing the p-value to a significant rate of 0.05. If the probability test returns a p value greater than 0.05, the data are normally distributed.

Autocorrelation Test Results

Autocorrelation is a symptom of the relationship between independent or self-correlated variables.
independent or self-correlated variables. Autocorrelation causes the residual variance to be lower than it should be. will be obtained lower than it should be. According to Wooldridge (2005) and Widarjono (2017), Testing the residual variance is one of the analysis methods used to determine whether or not autocorrelation is present. By evaluating the value of the Lagrange Multiplier Test (LM test), autocorrelation is achieved. The Autocorrelation Test's provisions are:
1. If Obs * R-square < Chi-Square table at α: 5%, then the model is free from indications of Autocorrelation.
2. If Obs*R-square > Chi-Square table at α: 5%, then the model there is an indication of Autocorrelation.

Multicollinearity Results

The multicollinearity test is used to see if the regression model's independent variables are correlated, as stated by Gujarati and Porter (2012). The multicollinearity test determines whether the model's dependent and independent variables are significantly correlated. Multicollinearity is caused by the correlation and relationship between two or more independent variables. These indicators point to the multicollinearity test:
1. Multicollinearity in this model is shown when the relationship coefficient esteem surpasses 0.8.
2. There is no evidence of multicollinearity in the model if the correlation coefficient is less than 0.8.

Heteroscedasticity Test Results

The heteroscedasticity test measures the inequality of variance between the residuals of different observations. The independent variable does not exhibit heteroscedasticity if the test results for it are greater than 0.05.

The Harvey Test is one method for determining heteroscedacity, as stated by Gujarati (2003). If the obtained chi-square (X1) value is greater than the critical chi-square, then a model has heteroscedacity. As per Gujarati, (2003) by taking a gander at the Ordinary Likelihood Plot (NPP), the ordinariness of an information can be tried, in the event that the NPP seems to be a straight line, the information is regularly dispersed. In addition to employing NPP, we can also determine the normality of the data by contrasting the X2 table with the Jarque Bera (JB) value. The data are normally distributed if the JB value is greater than 0.05, while the J-B count is less than 0.05, indicating that the data are not normally distributed.

Determination of Optimum Lag

The optimal lag in the model is determined in order to determine the ARDL model's lag mixture. Because the variable affects itself in addition to being influenced by other factors, determining the ideal lag in the ARDL model is crucial. The information on the Akaike Information Criterion (AIC) and the Schwartz Criterion (SC) can be used in this study to determine the best lag length. The SC value is the specified lag, and the criterion has the smallest AIC. Using the data information criterion, the ideal lag is chosen from among the collected lags with the greatest number of asterisks. Several lag levels are used to estimate the ARDL model; the one with the most asterisks is chosen as the best.

Stationary Test

To ascertain whether a variable is stationary, a stationary test with a unit root test can be used. If it is not stationary, an integration test should be performed. The Augmented Dickey Fuller (ADF) unit root test is used in this investigation. Assuming the worth of t is more noteworthy than the outright worth of the greatest basic worth, or if the p-value can be compared to that value, the data is said to be stationary because it lacks a unit root.

Cointegration Bound Test

Conditions that are stationary at the difference level rather than the level level are frequently depicted in time series data. As a result, a cointegration test must be carried out to ascertain whether the independent and dependent variables are cointegrated enough to have a long-term relationship. In this review, cointegration should be visible to leading a cointegration bound test. Cointegration occurs when the F-statistic value exceeds the upper bound. However, there is no cointegration if it is below the critical value.

ARDL Model

The Autogressive Distributed Lag (ARDL) model depicts the interaction between X and Y variables over time, as well as the effect of Y's past values on its present value. The Autogradient Distributed Lag (ARDL) model is used in this investigation.

In general, the ARDL model equation can be written as follows:

$$\Delta Yt = \beta_0 + \sum_{i=1}^{n} \beta_1 \Delta Y_{t-1} + \sum_{i=1}^{n} \delta_1 \Delta X_{t-1} + \varphi_1 Y_{t-1} + \varphi_2 Y_{t-1} + \mu t$$

Where:
β_1, δ_1 : Short-term coefficients
$\varphi 1, \varphi 2$: Long-term coefficient
μt : Disturbance error (whitenoise)

The following is the general model of ARDL:

$$\Delta PE = \beta_0 + \sum_{i=1}^{n} \beta_1 \Delta PAD_t + \sum_{i=1}^{n} \beta_2 \Delta DAU_t + \sum_{i=1}^{n} \beta_3 \Delta DAK_t + et$$

Where:
PE : Economic Growth
PAD : Local Original Revenue
DAU : General Allocation Fund
DAK : Special Allocation Fund
α : Long Term Dynamic Coefficient
et : Standard Error

ARDL has the advantage of being able to identify both short-term and long-term dynamics, as demonstrated. The short-run relationship condition in the overall ARDL model is tracked down in condition (1).

$$\sum_{i=1}^{n} \beta_1 \Delta y_{t-i} + \sum_{i=0}^{n} \delta_1 \Delta x_{t-i}$$

The long-term relationship is shown by:

$$\varphi_1 y_{t-1} + \varphi_2 X_{t-1} + \mu_t$$

The estimation method used is the Autoregressive Distributed Lag (ARDL) methodology. The ARDL model was chosen because the effects of Y and X, as well as the effects of previous Y variables on current Y, can sometimes be observed.

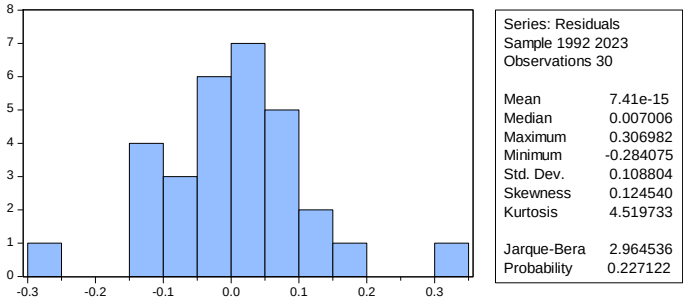
1. RESEARCH RESULTS AND DISCUSSION

Classical Assumption Test

In order to determine whether the data collected for this study are normally distributed and deserving of further investigation, the classical assumption test looks for confounding factors. Traditional assumptions in this area include the autocorrelation, heteroscedasticity, and multicollinearity tests, among others. The findings of the study's classical assumption tests are as follows:

Normality Test

Picture 1
Normality Test Results



Source: Data processed from Eviews output (2024)

Based on the normality test that has been carried out, the probability value of 0.227122 in the normality test can be said to pass or fulfill when the probability value is greater than = 5% (0.05), the normality test. So it tends to be inferred that the residuals are typically disseminated and this review breezes through the ordinariness assessment.

Multicollinearity Test

Table 1
Multicollinearity Test Results

	D(PDRB)	D(PAD)	D(DAU)	D(DAK)
D(PDRB)	1	0.0879	0.0595	0.0159
D(PAD)	0.0879	1	0.9062	0.2266
D(DAU)	0.0595	0.9062	1	0.3725
D(DAK)	0.0159	0.2266	0.3725	1

Source: Data processed from Eviews output (2024)

Based on table 4.2, it can be seen that the correlation coefficient between PAD and GRDP is 0.08 < 0.8, for the correlation coefficient between DAU and GRDP is 0.05 < 0.8, for the coefficient between DAK and GRDP is 0.01 < 0.8, for the PAD coefficient with DAk is 0.22 < 0.8, for the DAU coefficient with DAK is 0.37 < 0.8 there is no multicollinearity, while for the PAD coefficient with DAU is 0.90 > 0.8. Because the value is greater than 0.80, this demonstrates that the multicollinearity test continues to reveal a relationship between the PAD variable and DAU.

Autocorrelation Test

Table 2
Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.561364	Prob. F(2,17)	0.5807
Obs*R-squared	1.858540	Prob. Chi-Square(2)	0.3948

Source: Data processed from Eviews output (2024)

According to table 4.3, the autocorrelation test yielded results with a Chi-Square (2) probability value of 0.3948, indicating that the model does not exhibit autocorrelation.

Heteroscedasticity Test

Table 3
Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	6.326590	Prob. F(10,19)	0.0003
Obs*R-squared	23.07125	Prob. Chi-Square(10)	0.0105
Scaled explained SS	16.28604	Prob. Chi-Square(10)	0.0917

Source: Data processed from Eviews output (2024)

The probability of obs * R-squared can be seen in table 4.4. Because the probability of Chi-Square (10) is 0.0105 0.05, it can be concluded that the regression model has heteroscedasticity.

Optimum Lag Determination Test Results

Table 4
Optimum Lag Determination Test Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-76.74395	NA	0.003080	5.568548	5.757141	5.627613
1	19.32545	159.0114	1.25e-05	0.046521	0.989483	0.341845
2	62.07921	58.97070*	2.12e-06*	-1.798566*	-0.101234*	-1.266983*

Source: Data processed from Eviews output (2024)

The estimated lag selection criteria based on the aforementioned test results and the Akaike Information Criteria (AIC) and Schwarz Criterion (SC) indicate that the average value is at lag 2. Therefore, the optimal lag length for this study is 2.

Stationary Test

Table 5
Stasioner *Augmented Dickey Fuller* (ADF) Test Results

Variabel	Unit Root	Adf t-Stat	Critical Value 5 %	Prob	Ket
PDRB	Level	-0.120663	-2.960411	0.9385	Tidak Stasioner
	First Diff	-5.283312	-2.967767	0.0002	Stasioner
PAD	Level	-1.921927	-2.954.021	0.3186	Tidak Stasioner
	First Diff	-5.741159	-2.957.110	0.0000	Stasioner
DAU	Level	-2.185549	-2.954.021	0.2150	Tidak Stasioner
	First Diff	-5.284486	-2.957.110	0.0001	Stasioner
DAK	Level	-2.292642	-2.954.021	0.1801	Tidak Stasioner
	First Diff	-9.035116	-2.957.110	0.0000	Stasioner

Source: Data processed from Eviews output (2024)

Based on the unit root test results (table 4.6), which explain that the GRDP variable is stationary at the first diff level and has a t-stat value greater than the critical value (= 5%, namely -5.283312> -2.967767), The neighborhood own-source income variable is fixed at first diff with a t-detail esteem (- 5.741159 > - 2.957110). With a t-detail worth of - 5.284486 or more noteworthy than - 2.957110, the overall designation reserve variable and the extraordinary portion store variable both stay fixed in the first diff, separately. The test results show that the GRDP variable, the regional own-source revenue variable, the general allocation fund, and the special allocation fund are all stationary at the first difference level, so it is possible to draw this conclusion

Bound Test Cointegration Test Results

Table 6
Bound Test Cointegration Test Results

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	7.666248	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Data processed from Eviews output (2024)

Based on the consequences of the cointegration test utilizing the bound test procedure, the F-measurement esteem is more prominent than the I1 bound worth of 7.6662483. in the event that the F-measurement surpasses I1, either the certainty level of 10%, 5%, 2.5% or 1% is bound. achieving equilibrium between the short run and the long run, it can be said that the variables in the tested model have cointegration.

ARDL Model Estimation

The data is further checked for cointegration using ARDL analysis following the stationarity test. There are two types of processing viz: short-run processing and long-run processing.

Short-term Estimation

Table 7
Short-term Estimation

ECM Regression

Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGPAD)	-0.064206	0.205735	-0.312082	0.7584
D(LOGPAD(-1))	0.876301	0.207586	4.221396	0.0005
D(LOGDAU)	-0.149960	0.208373	-0.719672	0.4805

D(LOGDAU(-1))	-0.955705	0.217434	-4.395378	0.0003
D(LOGDAK)	0.106785	0.081759	1.306095	0.2071
D(LOGDAK(-1))	-0.300249	0.051731	-5.804080	0.0000
CointEq(-1)*	-0.456922	0.067078	-6.811826	0.0000

Source: Data processed from Eviews output (2024)

The tests show that the CointEq (-1)/Ect (-1) value is 0.456 and is significant at 5%, indicating that this model has both short-term and long-term cointegration. Additionally, the CointEq (-1) value of 0.456 is used to assess the rate of change adaptation. The CointEq (-1) value of 0.456 means that the imbalance will be adjusted by 45.6% in one period, the remaining 54.4% will be adjusted in the next period. The time required to restore the imbalance is 2.19 periods or 26.28 months.

The coefficient for the current year's variable, local own-source revenue, is -0.064206. This indicates that a 1% Economic expansion will suffer by 0.064 billion rupiah from an increase in local own-source revenue. The local own-source revenue variable has a probability value of 0, 7584>0.05, indicating that it has no significant impact on economic growth at the 5% level.

The coefficient for the variable local own-source revenue (-1) is 0.876301, which indicates that an increase of 1% in local own-source revenue over the previous year will boost economic growth by 0.876 billion rupiah in the current year. The probability of 0.0005 0.05 indicates that local revenue in the previous year has a positive and significant effect on economic growth in the current year, making this variable significant at the 5% level.

The overall designation store variable has a coefficient worth of - 0.149960 which implies that an adjustment of the overall portion reserve expanded by 1% will decrease monetary development in the ongoing year by 0.149 billion rupiah. Because the probability of 0.4805 is greater than 0.05, the general allocation fund variable has a negative and insignificant effect on economic growth at the 5% level.

The overall portion store variable (- 1) has a coefficient worth of - 0.955705 which implies that an adjustment of the overall distribution reserve in the past 1 year expanded by 1%, it will diminish monetary development in the ongoing year by 0.955 billion rupiah. The general allocation fund has a negative and significant impact on economic growth in the current year with a probability of 0.0003 < 0.05, making this variable significant at the 5% level.

Since the extraordinary distribution reserve variable has a coefficient of 0.106785, an increment of 1% in the unique designation asset will bring about a 0.106 billion rupiah expansion in yearly monetary development. The likelihood of 0.2071 being more noteworthy than 0.05 demonstrates that the extraordinary designation reserve variable affects monetary development at the 5% level.

The exceptional designation store variable (- 1) has a coefficient worth of - 0.300249 which implies that an adjustment of the unique distribution reserve in the past 1 year expanded by 1%, it will decrease monetary development in the ongoing year by 0.300 billion rupiah. The probability of 0.0000 0.05 indicates that the special allocation fund has a negative and significant impact on economic growth in the current year, making this variable significant at the 5% level.

Long-Term ARDL Model Estimation Results

Table 8
Long-Term Estimation
Levels Equation

Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGPAD	-1.540227	1.285838	-1.197839	0.2457
LOGDAU	0.306190	1.174144	0.260777	0.7971
LOGDAK	1.443156	0.218657	6.600083	0.0000
C	21.59551	2.663628	8.107555	0.0000

Source: Data processed from Eviews output (2024)

It can be deduced from the ARDL model estimation results that the constant value of 21.5955 indicates that economic growth will also remain constant at 21.5955 if local revenue, Over the long term, general allocation funds and special allocation funds remain constant. With a coefficient of local revenue of -1.540227, the following year's economic growth will decrease by 1.54 billion rupiah, resulting in a 1% increase in local revenue. This variable is significant at the 5% level. This indicates that the regional own-source revenue variable has no effect on North Sumatra province's economic expansion with a probability of 0.2457>0.05.

The coefficient of the overall designation store has a worth of 0.306190, and that intends that assuming the overall distribution reserve increments, financial development will likewise increment by 0.30 billion rupiah in the next year. At the 5% level, this variable is not significant. With a probability of 0.7971>0.05, this indicates that the general allocation fund has a positive but insignificant effect on economic expansion in the province of North Sumatra. The coefficient of the exceptional distribution reserve has a worth of 1.443156, and that intends that assuming the unique portion store increments by 1%, it will increment financial development by 1.443156 billion rupiah in the next year. At the 5% level, this variable is significant. With a probability of 0.0000 0.05, This suggests that the province of North Sumatra's economic expansion is influenced positively and significantly by the special allocation fund.

DISCUSSION

The Effect of Local Revenue on Economic Growth

Based on the results of the tests that have been carried out, it very well may be reasoned that in the momentary the variable of nearby income at the 5% level, the prob esteem is 0.7584> 0.05, so the variable of neighborhood income meaningfully affects financial development in North

Sumatra territory in the present moment at the 5% level. indicating that economic expansion will be hampered if local revenue rises. This study's findings are consistent with those of Fernandes & Hilwani (2021) and Gulo (2022), who assert that the impact of local own-source revenue on economic expansion is negligible and negative. This does not support the initial hypothesis, which states that local revenue has a significant and positive impact on economic expansion in the province of North Sumatra.

Since the prob esteem is 0.2457 > 0.01, nearby income affects monetary development in North Sumatra area. demonstrating that rising neighborhood own-source income will adversely affect monetary development because of its attention on provincial pay sources. Since these assets are simply exhumed from the capability of the district and can be completely used to be used as per territorial needs and do provincial administration and improvement, neighborhood own-source income is one of the kinds of revenue that the common government depends on a considerable amount. The initial hypothesis, which asserts that local revenue has a significant and beneficial effect on economic expansion in the province of North Sumatra, is not supported by this. This study's discoveries are reliable with those of Ridwan and Anis (2021), who express that nearby income essentially affects financial development.

Effect of General Allocation Fund on Economic Growth

The test results show that the general allocation fund variable has a prob value of 0.4805>0.05 in the short term at a level of 5%. This means that the general allocation fund variable has no effect on North Sumatra province's economic growth in the short term. This is in line with the results of the study by Arina et al. (2019), which found that the general allocation fund has no significant effect on economic growth.

In the long haul, the overall portion store meaningfully affects financial development in North Sumatra area on the grounds that the prob esteem is 0.2383> 0.05. indicating that economic expansion will follow an increase in the general allocation fund. The overall portion reserve is an asset gotten from the state financial plan which is designated fully intent on fortifying territorial monetary circumstances and diminishing disparity between locales to fund their consumption needs. The way that every district has assorted financial potential, this distinction can deliver different monetary development. The results of this study are in line with those of a previous study (Kolinug, 2023), which found that general allocation funds have no significant effect on economic growth.

The Effect of Special Allocation Funds on Economic Growth

With a prob value of 0.2071 greater than 0.05, the test results lead us to the conclusion that the special allocation fund has a positive and insignificant effect on short-term economic growth in North Sumatra province at the 5% level. This indicates that economic expansion will follow an increase in the special allocation fund. This is in line with the findings of the study by Mokorowu et al. (2020), which found that special allocation funds have a positive impact on economic expansion but no significant impact. Over the long haul, exceptional designation reserves meaningfully affect financial development in North Sumatra territory on the grounds that the prob esteem is 0.0000 <0.05. indicating that economic expansion will follow suit if the special allocation fund is increased. Unique allotment reserves are utilized to subsidize extraordinary exercises in locales that have been assigned as public needs. New jobs will be created and demand for local goods and services will rise as a result of projects funded by DAK. This study's discoveries are reliable with those of Alvaro (2022) who found that exceptional designation reserves fundamentally affect financial extension.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on this analysis, it can be concluded as follows:

1. Local revenue has a negligible and short-term negative impact on economic expansion. The probability of 0.7584>0.05 and the coefficient value of -0.064206 demonstrate this. In the long haul, neighborhood income affects financial development in North Sumatra region. This should be visible from the coefficient worth of - 1.540227 with a likelihood worth of 0.2457> 0.05.
2. Temporarily, the overall designation store makes a negative and inconsequential difference. The coefficient's value of -0.149960 with a probability of 0.4805>0.05 demonstrates this. The general allocation fund has a small but significant impact on North Sumatra province's long-term economic growth. The coefficient value of 0.306190 with a probability of 0.7971>0.05 demonstrates this.
3. The special allocation fund has a modestly positive short-term impact on North Sumatra province's economic expansion. The coefficient's value of 0.106785, with a probability of 0.2071 greater than 0.05, demonstrates this. Special allocation funds have a significant and positive long-term impact. This should be visible from the coefficient worth of 1.443156 with a likelihood worth of 0.0000 <0.05.

Suggestion

Researchers can make the following recommendations regarding research based on the findings and conclusions of their studies:

1. It is guessed that neighborhood legislatures will keep on exploring the capability of the district for those areas to shed their dependence on the focal government and become more autonomous steadily.
2. It is anticipated that federal transfer funds will be better utilized by local governments in order to improve community services.
3. Local governments are expected to use local revenue funds, general allocation funds, and special allocation funds wisely in order to increase the procurement of infrastructure, public facilities, and infrastructure that

will increase equitable development and economic growth.

4. It is recommended that researchers in the future be able to examine a variety of variables that have the potential to influence economic growth (such as capital expenditure, local taxes, etc.) and employ a variety of research models to gain broader insights.

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